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SOVEREIGN wealth funds (SWFs) had a mixed financial year in 2023 (FY23) which saw the investment climate strained by geopolitical tensions, elevated inflation and higher interest rates, but also major equity market benchmarks at fresh highs.

The behemoth of the industry, Norges Bank Investment Management (NBIM), with some US$1.37 trillion in assets under management (AUM) and with some 70% of that in equity, posted US$213bil profit for the year driven by its investments in big tech companies which gained on the artificial intelligence (AI) thematic.

Regional SWFs like Malaysia's Khazanah Nasional Bhd and Singapore's Temasek Holdings (Private) Ltd and Government of Singapore Investment Corp (GIC) Private Ltd as well as Indonesia's Indonesia Investment Authority (INA) had a mixed financial year by all accounts.

Khazanah posted a net profit of RM5.9bil for FY23, more than two and half times the RM1.6bil net profit it registered in 2022, with the rise attributed to higher dividends and distributions from investee companies, capital preservation and fair value gains which constituted about 30% of earnings on AUM of about RM130bil.

The profit came despite the strategic investment fund selling at a loss its Singaporean KidZania children's theme park and its 100% stake in Iskandar Malaysia Studios at a substantial loss.

Temasek, meanwhile, posted a rare loss of S$7bil for FY23 (ended March 31, 2023) compared with a profit of S$11bil in FY22.

While the bulk of its S$382bil net portfolio is invested in long-term value enhancing strategic companies in search of beta return, the attempt to seek alpha did not work out well in FY23 for the fund.

Temasek had to write off some US$275mil of its investment in the now-bankrupt cryptocurrency exchange FTX. The investment, however, accounted for only 0.09% of the Singapore SWF's net investment portfolio.

Comparing the performance of the funds should be subjective as each has their strategic investment approach, which yields differing outcomes, say analysts.

"Comparisons are difficult as GIC manages Singapore's foreign reserves and it is not an asset owner like Khazanah and Temasek, and INA has been established for a much shorter period.

"It is notable that in 2022, INA recorded a net profit that was 10 times higher than the previous year. Although currently small with a US$9bil AUM, its financial performance is worth watching over the next few years," Elsa Satkunasingam, director, executive education at the Asia School of Business tells *StarBizWeek*.

Much like NBIM, GIC invests the bulk of its US$770bil money abroad while Khazanah and Temasek are SWFs with a dual mandate, she adds. Temasek has invested in innovations and technologies in pre-commercialisation stages, as well as in large companies in Singapore and overseas.

Khazanah has similar strategies and it invests both in the domestic capital market and abroad while nurturing small companies like Farm Fresh Bhd that was subsequently listed on Bursa Malaysia.

Khazanah's domestic portfolio includes Axiata Group Bhd, CIMB Group Holdings Bhd, Tenaga Nasional Bhd, Telekom Malaysia Bhd and Malaysia Airports Holdings Bhd; not to forget Malaysia Airlines Group. Almost 60% of its portfolio is invested in these and other companies, which have a market cap of about 14% of the local stock exchange.

Less than 20% of Temasek's portfolio is invested in the Singapore stock exchange in large companies like DBS Bank Ltd, Singapore Telecommunications Ltd and Singapore Airlines. Its investments in Singapore, in both listed and unlisted companies, account for 28% of its total investments.

"In 2023, there was a step back in investments by SWFs globally, indicating a potentially cautious approach which might reflect on regional SWFs.

"Given the nature of SWFs as typically not alpha seekers, their performance would be best rated on the stability of their financial investments, government linkage and strategic investment diversification rather than aggressive returns," says Dr Liew Chee Yoong, Associate Professor – Finance at UCSI University Malaysia and Research Fellow at CME.

The trend could continue into 2024 for Khazanah.

Prime Minister Datuk Seri Anwar Ibrahim's call for government linked companies and government linked investment companies to invest locally and repatriate funds home in support of the ringgit, could mean Khazanah's investment activity abroad could be limited.

The call to repatriate capital is not new.

During the Covid-19 period, there were unusual capital calls on SWFs to liquidate their investments abroad and rescue hard-hit companies in their domestic markets. As a result, investments by SWFs in domestic markets post Covid-19 have risen from 22% to 44%.

"SWFs should seek diversification abroad not only to enhance their portfolio returns but also to manage the financial impact from domestic risks such as natural disasters and political instability.

Ideally, there should be a certain ratio of the funds that should be invested domestically and abroad, and also a certain proportion that should be invested in strategic investments for socio-economic development. In the case of the latter, there should be clear measures to assess the economic and social impact," says Satkunasingam.

The rise of SWF in the investment landscape has led Sarawak into launching its very own SWF, the Sarawak Sovereign Wealth Future Fund (SSWFF), with an initial investment of RM8bil and annual targets of RM400mil to RM600mil.

The capital will not be touched for 20 years except for critical events, early news reports suggest.

Liew says the establishment of the SSWFF could have a positive impact on the local stock market by providing a new source of investment. This could lead to increased liquidity and potentially better valuations for companies within Sarawak.

"A well-governed SWF in Sarawak is expected to obtain higher support for financial autonomy within Sabah and Sarawak, signifying broader socio-economic benefits beyond the stock market. The fund could contribute to sustainable development, diversification of the state's income sources and greater financial autonomy," said Liew.

Liew: Given the nature of SWFs as typically not alpha seekers, their performance would be best rated on the stability of their financial investments.

Satkunasingam is more cautious as even the best of intentions can be overturned by parties intent on using SSWFF for their own interests.

She highlights the current appointees to the Board of Guardians (BoG) to the SSWFF have impressive credentials, but it is not clear who appointed them or what the criteria for their appointment were, or what their mandate is, thus making it easier to manipulate future appointments for political or other purposes.

"To avoid undue interference in SSWFF's investment decisions, it is imperative to establish robust guardrails ensuring its resilience even amid changes in government and the BoG," she said.

One suggestion would be to protect the position of the BoG and the job security of senior management via legislation, in the event that they face pressure to use the funds for purposes outside its mandate.

Conversely, they should be liable for prosecution if they breach their mandate. Another suggestion would be to conduct awareness campaigns about the SSWFF's investment mandate, and the grounds for withdrawal of funds under the "critical events" category. This may act as a check and balance to hold the BoG and senior management of the SSWFF accountable to the public, she adds.

SWFs need very clear objectives such as the proportion of AUM to be allocated for commercial returns, and for socioeconomic objectives.

SWFs that practice and disclose good governance, accountability, transparency and prudent investment practices, in much the same way as listed companies do, may insulate their investment decisions from political interference.

The International Monetary Fund in a study found that if the government has weak public financial management, or is corrupt, the SWF will be expected to "mop up the mess" and act as a vehicle to finance government expenditure or corruption, under the pretext of pursuing socioeconomic objectives.